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HPE-SAM 2019

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HPE-SAM 2019

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[Music]

MODERATOR: Ladies and Gentlemen, please welcome Head of Investor Relations, Andy Simanek.

MR. ANDY SIMANEK: All right. So good afternoon, everyone. Sorry for the delay, a little technical issue. If you have a monitor in front of you, please do not unplug it. Anyway, so let's get started today. So I appreciate everyone coming downtown here to the New York Stock Exchange and for those of you joining us on the web. So I think I know most of you, but I'm Andy Simanek. I'm head of investor relations here and I would just like to welcome everybody to the 2019 Hewlett-Packard Enterprise securities analyst meeting.

So before we get started, I would just like to go over some logistics and the agenda for the day. So in a few moments we'll have Antonio on stage, and he'll go over the evolution of HPE, with his CEO update, "From Vision to Growth." That should run us to about 3:45 or so. And we'll take a short break. We'll come back at 4:00, after the market closes and we'll have our Chief Financial Officer, Tarek Robbiati, come on stage and give us the financial overview, including our outlook for the next financial year, fiscal '20.

And then we'll finish up with a Q&A session, so we'll have Antonio and Tarek on stage. And we'll also be joined by Keerti Melkote, head of our edge business; Irv Rothman who heads up financial services; and we also have our executive council here as well, if we need them to field questions. So we will also, all of the materials that we'll be presenting today, they will be published on our website, after, at the end of Tarek's presentation, so that will be about 4:30, 4:45 or so. And you can find those at HPE.com/investors/sam2019.

So let me just remind you that this is being webcast live. We'll have a replay of the event on our website for approximately one year. And lastly, let me give you the disclosures. So this event may include forward-looking statements involving risks, estimates, and assumptions. We assume no obligation to update such statements. So with that, let's go ahead and get started. I would like to

welcome our President and Chief Executive Officer, Antonio Neri. Antonio.

MR. ANTONIO NERI: Thank you. Well thank you, Andy. And good afternoon and welcome to the 2019 HPE Securities Analyst Meeting. Whether you are attending here in person or by webcast, thank you for joining us today. I also want to thank the New York Exchange for the opportunity to host our meeting in this iconic building again this year. This venue is a fitting reminder of what it means to be a time-tested organization that innovates and transforms.

This is my second security analyst meeting as HPE's CEO, and I have to say the last 21 months since I took over this role have been truly remarkable for me. It is clear that our company and our more than 60,000 team members are delivering differentiated products and services to help our customers accelerate their business outcomes like no other partner can, and I am more optimistic than ever about our future. We have an incredible opportunity in front of us. Technology is transforming and advancing every industry, from medicine to transportation, agriculture, to space exploration.

Customers need a cloud experience everywhere to harness all their data, no matter where they live, and drive business outcomes. We have built a strong portfolio of solutions and services that span the edge-to-cloud, placing us at the center of the customer demand and allowing us to meet the needs of our customers today, while preparing for tomorrow. So let me show you what I mean.

[Video presentation]

MR. NERI: When we created HPE in 2015, we realized an enormous opportunity existed for companies that could harness the power of data and transform their businesses. When I became CEO, I set out to sharpen our focus as a company. We have refined our vision to deliver edge-centric cloud-enabled and workload-optimized solutions to execute that vision. We have made great progress transforming our culture, delivering results through disciplined execution, and advancing our innovation agenda to provide exceptional experiences to our customers, as they accelerated their digital transformations.

This hard work has laid a foundation for the next phase of our journey, which will be marked by a strategic pivot to offering our entire portfolio as-a-service, as we drive

sustainable, profitable growth. I believe we are living in exciting times, where the digital transformation is happening everywhere.

We believe technology's greater promise lies in its potential for positive change, and that is why at HPE, our purpose is to advance the way people live and work. Everything we do is guided by those principles and we fulfill our purpose by engineering experiences that unlock our customers' full potential. We are helping enterprises to redefine experiences and drive intelligence, more secure hyper connected operations, while generating data that creates insights and value.

This will create boundless possibilities for the future, possibilities to help solve the biggest challenges facing our generation and to change the world for better. It is with this potential of technology in mind that we create strategies today that will better prepare us for tomorrow. And to deliver on this vision and capitalize on the incredible opportunity in front of us, having the right leadership is critical.

I assembled a world-class seasoned executive team with the diversity of experience needed to drive the next phase of our evolution. As a team, we are united in our vision and committed to HPE's success, which in turn drives value for our shareholders. Our success is made possible because of our strong culture. We believe in investing our employees and in the communities in which we live and work.

I started my career at HP 25 years ago and I have passion for the values that have underpinned the success of this company. And that is why one of my key priorities as a CEO has been a renewed focus on our culture. We have been thoughtfully investing to improve our own employee experience and culture which has revitalized what we call life inside the element.

We have made outstanding progress that will continue to pay dividends as we retain and attract the best talent to drive our growth and pivot as a business. For instance, we have been upgrading workplaces, including our new headquarters in San Jose, California. We enhance our benefits to help our team members achieve wellness and balance. HPE now offers six months' paid leave to new parents, either the mother or the father. And we have seen unprecedented improvement of 18

points in our employee engagement scores over the last two years.

We are proud to continue HP's long tradition of strong commitment to community engagement and support. We have built a framework of principled, ethical governance that promotes integrity and transparency, and values diversity. We have a world-class board of directors, with a diversity of skills, ethnicity, and gender, including five women that serve on our board, including our chair.

To help us prepare to accelerate our business, we set out through our HPE Next program to re-architect the company from the ground up, to drive operational efficiencies, and make it easy for customers and partners to do business with us. By removing layers between the customers and the senior leadership, simplifying our sales organization, and reducing the number of platforms we offer, we achieved more than \$800 million in net savings, ahead of our original timeline.

And importantly, this program has allowed us to make significant investments in R&D and sales to support future revenue growth while driving significant non-GAAP operating margin expansion at the same time. We have redirected investment back into the business, including annual double digits increases in R&D to drive organic innovation in higher-margin, faster-growth areas of the portfolio, and additional investments in go-to-market, to improve sales effectiveness.

The savings we have achieved through this program will continue to provide operational momentum in fiscal year '20 and beyond. By refocusing our company, we are either number one or number two in key markets across our businesses, including in important high-growth segments. Let me give you a few examples. We recently ranked number one in Gartner's Critical Capabilities, for both wire and wireless LAN access.

We hold 83 of the top 500 supercomputer installations around the globe. And finally, our financial services business uniquely helped customers address the entire product lifecycle to reduce the cost and resources demands of IT in what we call the circular economy. And we have done all of this while also making strategic investments in innovation to fuel growth.

Over the past two years we have taken very deliberate steps

to pivot our portfolio to higher value, software-defined offerings, and we have aligned our investment to pivot by innovating in three ways, organically, through R&D, through strategic partnerships, and targeted acquisitions. An example of our organic innovation is HPE Primera, which is a game changer for the high-end storage market. HPE Primera provides unparalleled simplicity, unmatched performance and a 100% guarantee of data availability. The initial customer response has been truly outstanding.

And we are expanding in to new customer segments by developing solutions for the mid-market and small businesses. For example, earlier this year we introduced Aruba Instant On, which is a secure, scalable, simple Wi-Fi solution allowing SMB market to benefit from our proven enterprise expertise. And just yesterday, Aruba changed the rules of networking with introduction of switching and software innovations designed to address the needs of today's modern enterprise campus branch and data centers.

HPE is the first company to offer a single switching platform that runs on a modern network and system architecture which we call Aruba OS-CX, from the enterprise edge to the core, to the data center. Our innovation through partnership has also accelerated. HPE is truly committed to offering choice to our customers through a broad ecosystem of partners that spans resellers, software vendors, and system integrators.

And last week I was actually here in New York to announce our unique partnership and investment, at the same time, in Pensando, a company that is developing innovative technologies and services for the edge. And earlier this year, we deepened our relationship with Google Cloud to deliver a true hybrid cloud for containers, and with a choice for as-a-service delivery through HPE GreenLake.

Nutanix just also announced and introduced a new hyperconverged infrastructure system, built on HPE ProLiant, the most secure compute platform on the planet and delivered through HPE GreenLake as-a-service because of our hybrid cloud management capabilities. We also enhanced our competitive position through targeted acquisitions. In fact, we have completed seven acquisitions since 2018 that I believe provide critical talent and complementary technologies.

These acquisitions strengthen our ability to help customers manage their data, from the edge to the cloud. And you will see more value from these acquisitions as we integrate intellectual property and combine our R&D engines. And one great example, one leading example of a highly strategic acquisition to accelerate our growth is Cray. High performance computing continues to be a strategic focus for Hewlett Packard Enterprise and one where we have a clear differentiation.

Cray combines deep supercomputing talent and cutting-edge technologies, such as the leading Slingshot interconnect and cloud-native software stacks for data intensive workloads, and the market is actually booming. By 2021, the HPC market segment, along with the associated storage and services, is expected to grow to approximately \$35 billion or about 9% annually, in terms of growth. And at the top end of the HPC market, exascale systems and technologies are expected to reach \$4 billion by 2024.

Together, HPE and Cray are ready to lead the exascale era. HPC architectures provide the backbone of today's advanced machine learnings and analytics techniques, and we believe that supercomputing must become mainstream. Not everyone needs exascale speed, but as digital transformation reinvents how businesses operate, everyone will need the technologies that power exascale class performance, and HPE with Cray will be on the forefront of this next frontier.

And as we have done this work to set us for sustainable, profitable growth, we have been also able to deliver strong financial results through our disciplined execution. We did what we said we would do. One of our most important measures is gross margins because it demonstrates our focus and pivot through a growing mix of IP-rich, software-defined offerings. It has grown to an outlook of 32.5% to 33% which is an improvement of over 250 basis points from 2017.

And for fiscal year '19, our non-GAAP operating profit outlook of \$2.7 billion is up \$500 million, in just two years. Our non-GAAP EPS has made significant improvement, too. Our outlook of \$1.72 to \$1.76 has nearly doubled, up more than 85% since fiscal year '17. Last quarter also marked our seventh consecutive quarter of raising our non-GAAP EPS outlook.

Both the quantity and the quality of free cash flow continues to improve. Last quarter we generated more than \$790 million year to date, year over year, a record level of free cash flow, and reaffirmed our fiscal year '19 outlook of \$1.4 billion to \$1.6 billion, even with a \$668 million arbitration award payment to the DXC. And we are also on track to deliver our commitment, which I announced in February 2018, to return \$7 billion to shareholders for fiscal year '18 and fiscal year '19, in the form of share repurchases and dividends.

We are quite pleased with the progress we have made over the last two years. I believe we are uniquely positioned, have momentum in the business and strong financial results that are setting us up for the next phase of our journey, which is to pivot our offerings to offer everything as-a-service. Now let me talk about where our profitable, sustainable growth will come from. The opportunity is undeniably edge-to-cloud.

Today, the digital transformation is creating countless possibilities in a world where billions of users, and devices, and trillions of things are connected. And apps and data that create and run our enterprises live everywhere in the cloud, on and off premises, and increasingly at the edge. We have gone from simply having a data center to having centers of data everywhere, and increasingly the data will be created at the edge.

Industry analysts predict 75% of the data will be created outside the traditional data center or the cloud by 2022. That is why customers need an edge-to-cloud architecture and experience. At the edge, they need a seamless connected experience that is also secure, and they need to be able to use technology and data to bridge the digital and physical worlds, whether it is to personalize experiences for customers or automate the workplace experiences for employees, ultimately delivering outcomes for their businesses.

These personalized and automated edge experiences must be cloud-connected and always secure. In many ways, the edge must work in harmony with the cloud. But for us cloud is not a destination. It is an experience. We believe that the cloud experience should be open and seamless across all clouds. We want to enable our customers to be the broker of services through their enterprise by providing access,

visibility, and control so they can deliver the right mix across all their edges and all the clouds.

I spend a lot of time with customers, and they tell us they don't want to spend their resources managing their infrastructure, whether on the edge, or in the cloud, or in the data center, whether it's cloud-native or legacy environments. They want to focus on their own innovation. And as always, they're looking always to lower the cost, all while maintaining control.

And consumption based IT offers solutions to these challenges. It provides greater agility. It empowers people to shift from managing infrastructure to focusing on innovation. It eliminates capital expenses or costs tied to over provisioning. And according to industry statistics, customers spend on IT hardware and software will grow to \$787 billion by 2022. And of that, the largest segment will be of the private cloud solutions delivered on premise as-a-service, representing 58% of that spend.

Workloads that are less data-rich and where the cost associated with data migration is minimal have already moved to public cloud. But more and more CIOs recognize that the data rich and latency associated with critical workloads not only require hybrid cloud architecture, but that hybrid approach is preferable, and it provides balance between cost and control. This is where consumption and subscription based IT solutions are focused. That's what we are focusing on.

Customers are looking for a technology partner that has the expertise, the right tools and solutions, with a flexible delivery model. It is all about delivering exceptional experiences through an IP rich, software-defined solutions and services delivered as-a-service. While enterprises of all sizes are looking to develop the next-generation cloud-native applications, create actionable insights from their data, and drive business growth, the reality is that they face many challenges.

And these challenges include the lack of in-house IT skills, limited budgets and options including financing, and the lack of flexibility to choose the technology foundation that best meets their needs. And I believe our portfolio is uniquely built to address these challenges. We have the right

expertise through HPE Pointnext Services to assess, design, implement, optimize, and manage our customer's digital transformation.

No matter what stage of the journey they are in. And by the way, this includes a cloud advisory team that has completed more than 1,000 successful cloud transformation projects. We also have the right software-defined innovation tools to help customers, whether that is automation, AI, security or predictive analytics. And HPE Financial Services provide flexibility in consumption models to our customers.

We do this to help our customers thrive across their business from every edge to any cloud, in a true hybrid experience. HPE is unique because we can address the legacy environments and build and connect the next generation of cloud-native applications, allowing enterprises to focus on their business transformation, and delivering the outcomes their customers need.

The trends which are in the market are also compelling and validate our vision and our strategy. The world is hybrid with processing capability at the edge and the right mix of private and public clouds. Multi-access networks will enable new customer experience, from the edge to the cloud. Connectivity is the first step in driving the digital transformation and must be application driven, secure across multiple clouds, intelligent and automated, agile and equipped for robust governance.

Data is exploding and it has gravitational force, and as a result a data intensive application and services deployment require proximity to where the data is created. And this is driving the need for tools like AI and machine learning that require the processing power of high performance computing architectures. We also see workloads and data are shifted to the edge, especially with the advent of 5G, IOT, and the industrial internet.

Solutions are increasingly workload optimized and vertically integrated across silicon, infrastructure, and software. And the application deployment is migrated to containers for both cloud-native and legacy applications. And last, but not least, consumption based models that offer customer choice, flexibility and speed are emerging as a preferred option for technology spend, allowing enterprises to focus on

innovation, instead of running IT.

And this is why at HPE we are focused on delivering everything as-a-service. We already live in an edge-to-cloud world. Customers want a cloud experience everywhere-and we are building an edge-to-cloud platform to deliver unique experience and services to empower key users, for example, for developers, what it means. What they care about is focusing on the code, not IT so they can release more software faster, to improve customer experience and productivity.

For the business it means brings agility, accelerated business transportation, giving them the visibility and control to directly connect project costs to the business outcomes and results. For data scientists, it means instant access to data and more time spent delivering insights to the business, not managing the data or the storage underneath. And for IT operations, they transform to become true service brokers for the business.

We have to focus on leading their company's digital transformation while ensuring security, compliance, and cost optimization. But now users will have access to all of their apps and data, no matter where they live, and freedom to use the tools they want. HPE is building that edge-to-cloud platform that is open, cloud-native, intelligent, autonomous, and secure. In many ways we are giving customers a true hybrid experience for their apps and data.

The intelligent edge is the natural next extension of the cloud. We talk about the explosion of the data through billions of things, and devices, and users are driving strong demand for connectivity, security, analytics, and cloud computing capabilities of the edge. We saw this enormous opportunity when we acquired Aruba. And more and more enterprises are understanding how critical the intelligent edge is to their future.

And increasingly the business outcomes will depend heavily on those experiences they can deliver at the edge, and we recognized this trend and developed Aruba Central to capitalize on it. Let me explain to you a little bit the power of Aruba Central. Aruba Central is at the heart of our HPE edge strategy and is the only cloud-native and simple to use platform that unifies network management, AI power

insights, and IOT device security for wired, wireless, WAN networks, and soon will also include 5G and edge computing.

Because Aruba Central is cloud-native, it is elastic, scalable, and easily accepts new technologies and services that organization can use to make their job easier, solve problems faster, and deliver better customer experiences. And over the last year we have made significant enhancement to the platform.

Through Aruba Central single-pane-of-glass interface, we are able to present all of the device information, AI-based insights, user-centric statistics and IOT device profiles, all in one place. And Aruba Central possesses the simplicity and scalability in application and readiness, providing customers with a true cloud-like experience. And you know what? Aruba has tremendous momentum.

To date, 40,000, unique customers from all industries are managing 750,000 devices used in Aruba Central. Now let me give you a couple of examples of how businesses are using the edge to provide better experiences to both their employees and their customers. In the branch space, Prime Group, a leading real estate and investment company came to HPE, and in particular Aruba, looking for a new networking strategy.

Prime Group wanted to implement a network that could support growth, streamline network connectivity, and simplify network management. They also wanted to empower their employees and enhance productivity across all of their locations while reducing costs. They chose Aruba software-defined Wi-Fi networking for a comprehensive SD-WAN SD-Branch solution.

Aruba SD-WAN delivered a 20-times performance improvement with considerable cloud cost savings and their SD-Branch deployment leveraging Aruba Central from the cloud, allowed them to roll guest networks to their communities throughout their properties. Through the new solutions, Prime Group slashed branch deployment times by more than 50% and are resolving help desk issues faster by 40%, boosting business and IT productivity.

As you know, for those of you who follow NBA, the Golden State Warriors have moved their home and new state-of-the-art arena called the Chase Center. In designing the new arena, Chase Center selected HPE Aruba as its partner for networking solutions, to transform both the fan and visitor experience.

They thought to drive an immersive technology driven experience that would support the 18,000 seat arena, as well as restaurant retailers, office spaces, to create a true digital playground. By leveraging HPE Aruba, the intelligent edge, and a working infrastructure with advanced security, now Chase Center is creating a seamless cloud-connected guest and fan experience.

Whether it's ticketing the event through the venue navigation, to food, to beverage ordering, all access via the Chase Center and the Warriors' mobile app, the arena now experience extends well beyond the event itself. But you know what? Customers are not the only ones recognizing the advantage of Aruba strategy and solutions to deliver those exceptional experiences at the edge.

This year Aruba emerged as the only vendor in the leaders category in the recent Forrester New Wave Wireless Solution Report which evaluated eight of the most significant vendors in the wireless space. And as I mentioned earlier, it was also the leader in the Gartner Magic Quadrant for the Wired and Wireless LAN Access Infrastructure. And I believe, given our strong portfolio and ongoing investment in this business, we are well positioned over the long term.

You heard me say earlier the world is hybrid, and to support this hybrid world we have been building a hybrid cloud platform that will help ignite innovation, to accelerate business outcome through speed, agility, and lower costs. Through our managed services capabilities, we help our customers to find the right mix of hybrid as an unbiased partner, open to any cloud with a consistent experience delivered as-a-service with HPE GreenLake.

You will see us bring HPE container offering to market to orchestrate and modernize existing on-premise application and unify with the public cloud. Our container platform will be the first of a kind built on Kubernetes and unique IP from Blue Data and MapR, two recent acquisitions. Another key to delivering this strategy is our composable capabilities. We have been making big investment in software-defined capabilities like HPE OneView to enable autonomous operations across all workloads.

HPE OneView is the software-defined solution that powers HPE Synergy, and HPE Synergy is growing 60% year to date. So no

matter what hybrid cloud stack our customers choose, we want to differentiate their experience with our secure, automated, and intelligent foundation. And that is why we will deliver all of these choices on our differentiated workload optimized solutions.

Now let me show you how our customers are putting our technology to use to drive key business outcomes. BlueShore Financial is a specialized financial institution that provides wealth management, investment solutions, and a full range of banking services. As you know, and you guys live this every day, in the banking industry, any outage is a bad news and has a severe impact on our clients.

So BlueShore Financial was attracted to HPE Primera, one of the latest introduction because of the industry leading 100% availability guarantee, to ensure unmatched performance for the mission critical applications. And BlueShore Financial was the first customer actually to select HPE Primera. They were also attracted to the sustainability of our product, and now they don't have to upgrade equipment every few years because the lifecycle is much longer, as a result of the product-in-place upgrades.

And BlueShore told us that having a system that eliminates the need to recycle hardware had a huge impact in their decision making and in the data center footprint. We're also proud of the cutting edge work we are doing with customers in the high-performance computing space, particularly with Cray now being part of the HPE family. We just announced, actually a couple of days ago, a win with U.K. Research and Innovation Center which works to create the best possible environment for research and innovation to flourish in the United Kingdom.

UKRI needed a faster, more powerful system to run simulations and calculations for research and discipline, ranging from oil and gas, to mental and physical health. They are expanding their high-performance computing capability with Cray's next generation supercomputer. This new system, named Archer2, will be 11 times more powerful than its predecessor, and will support more than 8,000 users and more than 750 projects. It will be the first supercomputer delivered to the EMEA region and it will be absolutely the most powerful supercomputer in the United Kingdom.

And it is also not just our customers who are taking notice about our investment and benefits of the hybrid cloud. Industry analysts are also recognizing HPE leadership, too. And for instance, in this case, Gartner has given us an overall positive rating in the vendor report. And also other analysts are taking notice of how we are pivoting and redefining the industry model.

HPE will continue to expand our integrated cloud portfolio to deliver more choice, consistent experiences, and optimized workloads from the edge to the cloud. I said earlier the way technology is being consumed is rapidly evolving, and in the future, everything will be delivered as-a-service. Companies are looking for a cloud experience. And with HPE GreenLake we can deliver the cloud experience for any workloads anywhere, and customers only pay for what they use, at the edge across multiple clouds, and in the data center, or in co-locations.

And that is why this year at our annual HPE Discover conference in Vegas I committed to offering our entire HPE portfolio as-a-service by 2022. HPE will be a consumption driven company and everything will be available as-a-service. HPE GreenLake is one of the fastest growing businesses in Hewlett-Packard Enterprise, with 740 customers and gaining just this year alone 160 new logos.

And last quarter we saw more than 20% year to date, year over year orders growth, with over \$3 billion in total contract value. HPE is the only company that can provide a true consumption driven offering in a hybrid cloud environment. Our key differentiation is our sophisticated metering, financial, and managed services capabilities.

This include choices for pay-per-use and fully managed, across on premises applications and public cloud, freeing up resources for customers. Customers choose what they want, where they want it, and only pay for what they consume. HPE Green Lake actually frees up capital, repurpose talent to innovate, eliminate overprovisioning, and workloads are always supported with the latest technology while still providing control that is now possible today with the public cloud.

And that's a point of differentiation, control. For the business, that means they gain agility and speed to innovate

and accelerate digital transformation, without worrying about the IT underneath. Customers can build and deliver new solutions with confidence because the IT team has the proper visibility and control to ensure compliance, security, and cost management.

Our leadership has enabled us to build a unique breadth of capabilities and partnerships that no one else can match. Last year we also started offering HPE GreenLake through our channel partners. As you know, most of our business go through the channel. And today over 500 partners sell the as-a-service portfolio and HPE GreenLake channel business has grown over 300%, year over year.

In a response to the demand from the channel, we recently expanded HPE GreenLake to reach the mid-market and the mid-market can be up and running in a matter of days with purpose-built solutions. And I believe the power to the platform is the overall experience. Our ability to offer all of this technology as-a-service is a key differentiator for HPE, and I believe it is just the beginning. In fact, in a few weeks, we will unveil the next generation of a true hybrid as-a-service platform, and let me give you a preview.

This is how we will deliver the edge-to-cloud platform as-a-service. We want to enable our customers to be the broker of services to their enterprise by giving them the visibility, the access, and the control, so they can deliver the right mix across all of their edges and all of their clouds. Today, customers cannot deliver a consistent experience to all of the business users for the apps and data.

With our next generation of HPE GreenLake, we will be able to deliver one unified as-a-service experience across public, private, and edge workloads that simplifies the experience through a set of integrated tools that provides visibility across cost, compliance, and governance. And for example, for the business, what it means? It means they will gain agility and speed, with the freedom to use tools and work in the environments best suited to their objectives, and deliver the outcomes.

For the CFO, finally, a holistic and granular view of the budget, allocation, and actual spend across the entire hybrid IT or hybrid estate, giving executive insights that matter to the business. And for the CIOs, it is truly transformational

because the burden of managing the infrastructure is taken off their plates.

They have a simple way to quickly and easily deliver resources to multiple tenants and become a true service broker and partner, who focuses on governance, security compliance, and cost optimization, versus keeping IT up and running. And for developers which are becoming even more powerful today, they gain what they have been asking for, access to the best industry tool, to write and release more code, working as close to the data as possible.

And let's not forget legal compliance and CISOs and others, since we have a few here in the room. They can actually ensure continuous compliance across the public cloud environment that maps directly to the framework, whether it's HIPPA or Sarbanes-Oxley, and many others. And that is the experience we will deliver with the next generation of HPE GreenLake and it's going to happen here, just in a few weeks.

So stay tuned for a very exciting set of announcements. I wish I could have done it here today, but I don't want to reveal too much. But I hope you will stay tuned for those announcements. So now let me give you an example of a customer who has already taken advantage of this opportunity with HPE GreenLake and it is a very exciting customer. It's called Porsche Informatik.

We are doing some very cool work using composable offerings, combined with HPE GreenLake in the automotive industry. Porsche Informatik is the IT service provider for Porsche, and is one of the Europeans largest developer of custom software solutions for the automotive industry. They were hampered by limited resources and delays in developing, testing, and distributing applications through the Porsche dealerships.

Since implementing HPE Synergy with HPE GreenLake, Porsche Informatik has improved application performance, decreased data center complexity, and increased responsiveness. In fact, with HPE GreenLake metering and capacity management, a combination of both, the resources required for each workload are ready to deploy in minutes, not months.

These improvements have enabled Porsche to innovate and better serve employees, dealers, and customers on a global scale, giving them a true cloud experience. I am very proud

of the work we are doing to help our customers with the digital transformations, and I'm excited about our ability to help them unlock the full potential. We can deliver in ways no other partner can, which will power the next chapter at Hewlett Packard Enterprise.

I am confident in our ability to continue to deliver strong results in fiscal year '20 and beyond, as we pursue our commitment to offering everything as-a-service. I believe we have a very compelling portfolio of solutions and services which we have been investing over the past few years to make even better and we expect to deliver top-line growth of 1% to 3%, as a part of a long-term financial model.

Non-GAAP operating profit is expected to grow 5% to 7%, as we drive growth while expanding gross margins in higher margin software-defined offerings. Non-GAAP EPS will grow slightly faster, at 7% to 9%. We have made tremendous progress in improving the quality and the quantity of our free cash flow. Going forward, we expect free cash flow to normalize and track earnings growth as we wind down HPE Next which is a significant improvement in a very short period of time.

These results will be a reflection of us delivering on our customers in new and bold ways. I am more convicted than ever that our customers will call on us and ask to help them transform, not only because they already trust us, but because they are inspired by our vision. I believe we have the most compelling vision and strategy in our industry, aligned to our customers' needs, current trends we see now and in the future.

We are the Edge to Cloud Platform as-a-service company. We are HPE. Thank you.

[Video presentation]

MR. SIMANEK: All right, great. Well I thank you, Antonio, for providing HPE's vision and strategy, as the edge to cloud platform as a service company. So right now we're going to take a short break. Feel free to grab some refreshments over here, and we'll start back near the top of the hour, just after the market closes, and we'll be joined on stage by Tarek Robbiati. So we'll be back in about 15, 20 minutes.

[Break]

MR. SIMANEK: All right. Welcome back, everyone. So we're going

to get started here. So I hope you found the first section of our event helpful and gained some insight into our vision and strategy as an edge-to-cloud platform as a service company. So now we're going to demonstrate how that translates into our financial architecture, which is where we will also provide you guys with our fiscal year '20 outlook.

So just as a reminder, we're going to be posting all of the slides for Tarek's and Antonio's presentations right after Tarek finishes, around 4:30, 4:45 or so. So with that, let's go ahead and get started. Welcome to the stage our Chief Financial Officer, Tarek Robbiati. Tarek.

MR. TAREK ROBBIATI: Thank you, Andy. Good afternoon, everyone, and thank you for joining us today. I've been the chief financial officer of Hewlett-Packard Enterprise for just over a year now, and I look forward to sharing my insights and perspective on HPE and the as-a-service opportunity ahead of us. At our SAM presentation last year we talked about the great potential of HPE with its unique portfolio of assets across the edge to cloud continuum.

And now one year in I can see HPE better positioned than ever to lead our customers' digital transformations and define the edge to cloud experience and industry model. Antonio provided insight into his vision and our strategy for transforming HPE into an edge to cloud platform as a service company in the upcoming years.

In the next 45 minutes, I will first briefly recap HPE's financial accomplishments for the past two years. Second I will translate Antonio's vision into our new financial strategy and its architecture. And we will deep dive in to the financial implications of pivoting to an as-a-service business. Finally, I will share with you our long-term financial model and FY20 outlook before the Q&A session that will conclude our securities analyst meeting.

Antonio has covered this slide at high level, highlighting our financial progress in the last two years. And I thought it would be worthwhile now to provide some additional details into our performance for each of these metrics. So let's dive right in, starting with gross margin. The gross margin metric is a key metric to track our progress and demonstrates the increasing value we are delivering to customers through our IP rich and software defined solutions.

From fiscal year '17 to fiscal year '19, we have expanded gross margins between 250 and 300 basis points and improved gross profit by a run rate of nearly \$900 million. It is important to note that the majority of the gross margin improvement is structural in nature. Let me walk you through the key drivers of our gross margin expansion.

The first driver is the fact that server configurations are getting richer due to the ongoing explosion of data. And that trend is expected to continue, requiring more memory, more storage and more accelerators. Second is our continuous focus on the mix and shifting that mix. We have been on a trajectory of transitioning our portfolio towards higher margin offerings in faster growing areas of the market, such as HPC, composable cloud, hyper-converged infrastructure, storage, and edge.

Third, we have evolved our offerings with IP rich software defined solutions across the entire portfolio, which is a significant value to our customers. Fourth, savings from HPE Next initiatives, as Antonio highlighted, have driven margin expansion. Several supply chain efficiency initiatives and automation of our cost of delivery in Pointnext operational services have yielded tremendous benefits to cost of sales.

Lastly, we also had some recent favorability due to deflation in commodities. With this improvement in gross margin, we are on track to deliver our HPE Next savings commitment of \$800 million of net run rate savings, ahead of schedule. I would like to remind everyone that HPE Next winds down in fiscal year '20.

Looking forward with the as-a-service pivot, we continue to see multiple levers of improvement in gross margins. All of this gross margin expansion allowed us to make significant investments, to grow our business, while simultaneously expanding operating margins. As you will see, R&D investments grew double digits in the last two years, to foster organic innovation and make the investments needed in key growth areas of the market, like the edge business and software platforms.

On the sales side, we have invested to support our new product launches and pivot our business to as-a-service. We expect to garner improved productivity from these investments in R&D and sales in the next couple of years. Now let me

touch upon our improvement in operating margins. Since fiscal year '17, we made significant strides in improving our operating margins, which we expect to be up approximately 200 basis points over the last two years.

Moving on to EPS and cash flow, as you can see on this slide, we have made significant improvements in both the quality and the quantity of our earnings and cash flows. We expect non-GAAP diluted net EPS to grow over 85% between fiscal year '17 and fiscal year '19, due to our continuous focus on margin expansion, coupled with disciplined operational execution.

We have also made tremendous progress in free cash flow, which we estimate will be up by approximately \$2.6 billion over fiscal year '17 levels. Our outperformance in free cash flow is driven by operating cash flow, which reached record levels this year, on a year-to-date basis. Cash flow growth has been fueled by increasing earnings and lower one-time HPE Next payments.

We also expect meaningful improvement in working capital, which will be a source of cash in fiscal year '19 versus a use of cash in prior years. The bottom line is that our gross margin levers are fueling margin expansion and driving improved level of cash flows. As we discussed during our last earnings call, we were disappointed with an arbitration ruling that required us to make a \$668 million award payment to DXC in September. Due to this unanticipated one-time payment, we now expect free cash flow in fiscal year '19 to be towards the lower end of our \$1.4 to \$1.6 billion outlook.

However, excluding this payment, we would have expected to exceed the top end of our outlook range. Now let us shift focus to how our strong progress over the last two years has laid the foundation for our pivot to as-a-service, going forward. As Antonio discussed, we are aligning to industry trends and customer preferences by planning to offer our entire portfolio as-a-service by fiscal year '22. This has some very important financial benefits that will help us drive sustainable, profitable growth.

First, let me explain in simple terms the structure of an as-a-service GreenLake solution. An as-a-service GreenLake solution contract consists of several components. Number one, an infrastructure component such as compute, storage, or networking configuration that is software defined. Number

two, a Pointnext services capacity contract. Number three, platform software, such as Aruba Central, plus number four, a financial services charge as the customer pays for the solution over the term of the contract.

Customers with GreenLake can choose two type of solution configurations, a standard solution or a bespoke solution. The duration of the service capacity contract and the configuration determine the accounting treatment of the transaction. Typically, longer-term contracts fully amortize the value of the assets and are considered embedded capital leases.

In embedded capital leases, the infrastructure revenue is recognized up front. Short-term contracts involve a shorter duration of payments for the customer and a residual value of the infrastructure. This is akin to an embedded operating lease for which all revenue is recognized over time. In both embedded and operating leases, the customer pays for the use of the solution over the duration of the contract, while the title of the equipment is retained by HPE FS.

Also, in both leases types and specifically for hybrid IT only, the infrastructure is pre-provisioned to a minimum capacity level agreed with the customer. The customer pays the minimum capacity plus any usage in excess. As the needs of the customer evolve, the customer can decrease or increase the capacity commitment over the duration of the contract.

Although this is similar to how the public cloud is consumed, the primary difference is that it gives the customer full control and flexibility on premise. In the case of the edge and at this stage, the networking infrastructure is provisioned at full capacity. As we introduce support for IOT and 5G, we may elect to introduce a metering charge, given that IOT and 5G services are typically usage based.

Now let's look in detail at the impact of the as-a-service shift on our financials. We are introducing a new financial metric to help you and our investors track our progress and better value the recurring and higher margin benefits of shifting to as-a-service model. This metric is the annualized revenue run rate, or ARR, which includes several components.

First it includes all of the Pointnext services capacity minimum commitment revenue agreed to in a given contract,

plus any usage above the minimum commitment. Second, it includes the infrastructure rental revenue for as-a-service contracts considered embedded operating leases, where the revenue is recognized over time.

Third, in the case of contracts considered to be capital leases, it includes the associated interest income. Further, we include any other subscription or software-as-a-service revenue from our portfolio in the ARR. And finally, we multiply by four the sum of all of these revenue streams in any given quarter, to get an annualized number.

It is important to recognize that this is a conservative metric. Why? Because most of the contracts being included are generally four years or more and the number of these contracts will grow over time. Our definition of the ARR is consistent with the definition used by other players in the tech industry. Now to give you a sense of the magnitude of our ARR today, our ARR outlook for the fourth quarter '19 is between \$460 million to \$470 million, and most importantly with gross margins above the company average.

We expect this to grow quite rapidly at a 30% to 40% CAGR between fiscal year '19 and fiscal year '22, while expanding gross margins. Most of you will be curious to understand the impact that our pivot to as-a-service has on our top-line revenue and cash flows. So let me provide some insights into this because some of you have asked the question during the break.

The pivot will be gradual, as we offer customers choice in how they consume our portfolio of solutions. The chart on the left shows the impact of our pivot to as-a-service on total HPE revenue, with the baseline case just mentioned, with an ARR growing at 30% to 40% CAGR. Our current mix of capital and operating leases embedded in GreenLake is roughly 50/50.

As you can see on the chart, the more customers adopt operating leases, the bigger impact to revenue. At 100% adoption of operating leases, this would imply up to a 150 basis points drag to overall HPE revenue by fiscal year '22. However, that 100% adoption would grow our ARR even further and faster.

Looking at the impact to free cash flow on the right hand side, you can see our current baseline growth plan has only a

slight impact to cash flows in fiscal year '20 and fiscal year '21. Doubling our baseline growth assumptions would result in incremental capital requirements of up to \$500 million each year in fiscal year '21 and fiscal year '22. But we will return to being free cash flow neutral in fiscal year '23, with a steeper, long term ramp as we collect more revenue over time across all customer contracts.

The bottom line is that our evolution to an as-a-service business will be gradual and steady. Moreover, thanks to innovative HPEFS funding structures such as asset backed securities, we can offset this increase in capital intensity and I will further elaborate on this in a moment.

Let's now discuss how our as-a-service strategy will evolve our business, with more software and services to deliver exceptional customer experiences and drive gross margin expansion in the next few years. As we move forward in the journey towards an as-a-service model, we see several opportunities to evolve the offering from customized bundles of today to platform-enabled standard configurations in the future.

First, we will continue to improve the mix of software and services by building out HPE platforms with Aruba Central and Hybrid Cloud becoming a larger component of the offering. Ultimately, we will empower our customers with a single platform to manage workloads, edge to cloud.

Second, we will continue to expand ARR through improvements in utilization levels and the introduction of new pricing schemes to cater to higher demand instances. Third, we will continue to optimize our cost structure for the offerings through customer self-service portals, standard modular building blocks, and more proactive services.

Overall, we expect that our as-a-service business will be a key driver of gross margin expansion and a key contributor to higher levels of recurring profitability. As we have said on previous occasions, HPEFS is critical in facilitating our as-a-service business.

HPEFS differentiates HPE's value proposition and is strategic to our customers, as it enables them to accelerate the digital transformations by leapfrogging from one generation of technology to the next. HPEFS also serves as a financial

engine behind our as-a-service offerings, giving customers flexibility in how they consume their IT solution.

Antonio mentioned earlier how sustainability was an important part of our culture, and HPEFS plays a major role in promoting the circular economy with its best-in-class asset management business. HPEFS's track record in managing the entire lifecycle of infrastructure assets, from certified pre-owned, down to recycling is second to none.

This is not only great for the environments, but our expertise in infrastructure asset management unlocks hidden value for customers, while yielding significant margins for our business. Last, but not least, it is vital to note that HPEFS also helps manage the increased capital intensity that comes with the growing as-a-service business.

And this is done through asset-backed loans or other financing structures at a low cost of capital, which benefits us, our customers, and our shareholders. All the infrastructure assets that underpin our as-a-service offerings will be booked in the HPEFS balance sheet, and cash flow statement in the same way, just like a normal HPEFS volume transaction.

From a free cash flow standpoint, HPEFS volume transactions are equivalent to investment CapEx entry, which is typically offset with financing cash flow from ABS or other financing issuances. By the way, we are already active in the ABS market. In September 2019, HPEFS completed its first ABS issuance of \$763 million that was more than seven times oversubscribed, at a cash advance rate of nearly 95%, with residual values, and priced at an average, all-in cost of capital of 2.3%.

You can see that HPEFS is strategically important to our stakeholders and critical to delivering the shift to other service. Now in order to provide better visibility to the financial markets about our execution towards become an as-a-service company, we are going to make additional disclosures about our business.

In doing so, we must recognize the economic differences that exist across a hybrid IT world made of industry standard servers, high-end compute and storage solutions. So we will have four new segments under hybrid IT: compute; high-performance compute and mission-critical systems; storage -

which will include infrastructure, software, operational services within each segment; - and four, advisory and professional services.

Key financials will be provided, down to the operating profit line, in each of these segments. Please note that we will continue to report PointNext operational services revenue and orders in total for all of hybrid IT, in fiscal year '20.

This increased transparency in hybrid IT will provide investors with a better understanding of the evolution of our business, as we pivot to sustainable, profitable growth. There will be no changes to other segments of intelligent edge, HPEFS, and corporate.

As a reminder, our corporate segment includes HPE Labs and our communications and media solutions business, known as CMS. HPE Labs continues to drive key innovations for our future offerings, with a focus on technology breakthroughs, to deliver the next generation of secure, efficient, and automated as-a-service architectures for optimizing workloads in a distributed and data intensive world.

CMS is our telco industry vertical business. It is strategic to HPE, and we are currently transforming this business to become a leading provider of software solutions for the 5G world to come. There are a few other points to highlight with this structure.

We have taken operational services that previously resided in HPE Pointnext services and allocated that to individual new segments. This gives you a more complete view of each business since the infrastructure and support services are linked.

HPC and MCS will mainly include HPC Apollo and Cray that we recently acquired. And our advisory and professional service business is strategically important to drive our as-a-service business sales, and will be reported as a standalone segment. Additionally, and most importantly, we will provide the annualized revenue run rate for our consumption services offering, aggregated across all the relevant segments.

As a reminder, HPE consolidates HPEFS in full. Over time, we will look to provide commentary about the composition of our total HPE free cash flow as a combination of our operating company free cash flow and HPEFS free cash flow. We will

begin reporting these new segments, starting with Q1 of fiscal year '20. And rest assured, we will provide full restatements of fiscal year '18 and fiscal year '19 shortly beforehand.

Now with that background in mind, let's turn to our long-term financial model and outlook. On the top line, we will continue to shift our portfolio to faster-growing markets, and higher-value offerings in edge, storage, HPC & MCS, and related services. And we expect to drive higher levels of ARR with our shift to as-a-service, enhancing long-term sustainable profitable revenue growth.

On the gross margin front, we expect continued structure improvements in the next two to three years, driven by mix shift, infusion of software-defined offerings across our portfolio, and strong growth in our service business. Next, we expect operating profit to grow faster than revenue, which generates strong free cash flow.

And lastly, our solid balance sheet will enable disciplined investments for growth and meaningful capital returns to shareholders. Now let me translate all of these financial priorities into our long-term model with expected, compounded annual growth rates, from fiscal year '19 to fiscal year '22.

We expect revenue to grow 1% to 3%, non-GAAP operating profit to grow 5% to 7%, and non-GAAP EPS to grow faster, at 7% to 9%. We expect free cash flow growth to track earnings growth over time, as we wind down HPE Next, which will reduce our one-time payment obligations.

We expect to grow operating profit faster than revenue, and earning per share to grow faster than operating profit, while continuing to improve the quality and the quantity of our free cash flow.

Finally, we will continue to make ROI based decisions to capital allocation, making disciplined investments and returning meaningful capital to shareholders. As customary, share repurchases will be valuation-based, and we expect balanced dividend distributions throughout the year.

So overall, we expect to return 50% to 75% of free cash flow to shareholders over time, through share buybacks and dividend payments. Now with that long-term financial profile

in mind, let's discuss the key assumptions underpinning our fiscal year '20 outlook that includes Cray.

In its third revision of its 2019 forecast, the International Monetary Fund is now predicting global economic growth will slow this year, but will grow slightly next year. Global trade tensions have created uncertainty. The elongation of sales cycles that we experienced since Q2 of fiscal year '19, especially in larger deals, continues.

From a top-line perspective, we expect to grow revenue, adjusted for currency, in fiscal year '20, including Cray, but we are not providing more specific revenue guidance, as the macro environment remains too uncertain. Please note that tier-one sales no longer represents a material portion of overall sales and are now profitable.

Volatility in FX rates, such as the euro and the pound remains high. And as a result of our exposure to Europe, representing more than 35% of our revenue base, we are expecting a 1% to 2% point headwind to revenue, from currency based on recent rates.

We are targeting non-GAAP operating profit dollar growth of 4% to 6%, as our gross margin expansion continues to drive profit growth while allowing us to invest in R&D and sales, similar to prior years. Looking at non-operational assumptions, we expect OI&E, which includes our equity interest in HPC and net interest, to be approximately a \$100 million expense in total.

Turning to our tax rate, and similar to fiscal year '19, we will continue to report our non-GAAP effective tax rate, based on the structural tax rate expectation, utilizing a three-year rolling forecast. At this time, we are maintaining our existing non-GAAP effective tax rate of 12% for fiscal year '20.

Lastly, we expect a fully-diluted weighted average share count of approximately 1.3 billion shares outstanding. With that, we expect to grow our non-GAAP diluted net EPS in the high single-digits, at the midpoint of our guidance of \$1.78 to \$1.94.

We expect free cash flow to be \$1.9 billion to \$2.1 billion, consistent with our previous guidance, and after absorbing the increased capital required by our as-a-service offerings.

We also expect capital returns to shareholders to be 50% to 75% of free cash flow, and this includes a 7% dividend increase, just approved earlier today by our board, to 12 cents per share.

Let's look at the fiscal year '19 to fiscal year '20 non-GAAP EPS bridge. Starting from our full-year non-GAAP EPS guidance for fiscal year '19 of \$1.72 to \$1.76 per share, we expect a 23 cents to 29 cents per share benefit from net operational improvements, which includes favorable product mix towards higher margin offerings and spend efficiencies, offset with ongoing investments in sales and R&D.

As explained previously, currency based on recent exchange rates is expected to be a headwind in fiscal year '20 of approximately 17 to 19 cents per share. OI&E will be a 3 to 5 cents per share headwind, primarily due to favorable one-time gains in fiscal year '19 that we do not expect to repeat in fiscal year '20.

Finally, we expect a reduction in our share count, as we continue our share buyback in fiscal year '20 at a normalized level post tax reform. The share buybacks should benefit our EPS by about 7 to 9 cents per share. The net of all of this is that our fiscal year '20 non-GAAP diluted net EPS outlook will be in the range of \$1.78 to \$1.94, delivering a non-GAAP EPS growth rate of approximately 7% year over year, at the midpoint of our outlook range.

Now let's turn to free cash flow. As I mentioned in our prior earnings call, on a year-to-date basis we delivered a record level of \$860 million in free cash flow. That is up \$790 million, versus the prior year, driven primarily by higher profitability and lower HPE Next payments.

As we look to wrap up fiscal year '19 that includes the DXC award payments, we now expect that we will be at the lower end of our guidance of \$1.4 billion to \$1.6 billion. That would have been significantly above the range, excluding the one-time \$668 million payment.

For fiscal year '20, we expect free cash flow to be \$1.9 billion to \$2.1 billion, driven by continued gross margin expansion and lower HPE Next payments, as we reach the end of the program. The net takeaway is that we are on track to nearly double free cash flow between fiscal year '18 and fiscal year '20.

Finally, let's discuss our balance sheet. We remain committed to maintaining our existing investment grade rating. It provides us with security and financial flexibility to make disciplined growth investments and drive meaningful returns to shareholders.

It is important to distinguish between the operating company and the financing company capital structures. Looking at our operating company, we have a very healthy net cash position of \$2 billion, and you can see just over \$1 billion in debt, with healthy leverage ratios.

Turning to the financing company, most of the HPEFS net debt is associated with the financing of receivables, and very little cash support levels are required to run this business, given the world-class underwriting performance, with bad losses of approximately 0.5% of average net receivables of \$13 billion.

This world-class performance of low bad debt levels enables a very efficient capital structure and high return of equity of 16%, on a \$13 billion asset loan book. We also have strong liquidity with access to newly arranged \$4.75 billion five-year credit facility.

As mentioned previously, we also entered the asset-backed securities market to diversify funding sources with better matching of FS liability duration with the contract duration of the receivables. This will also be important going forward, as we look to expand our as-a-service business beyond fiscal year '20 by tapping the ABS market through HPEFS, to offset the related capital intensity, at an optimal cost of capital.

So before I turn it to Q&A, let me just recap. We believe we are a unique investment opportunity. First, we have a broad portfolio of offerings and platforms aligned to the growing edge to cloud market opportunity.

Second, we are redefining the industry model by offering everything in our portfolio as-a-service. This translates into a financial architecture with sustainable profitable growth and increasing recurring revenues, at higher gross margins over time.

Our ability to grow operating profits will generate levels of cash flow that we can use for further disciplined growth

investments and return of capital to shareholders. Let me close by reiterating that I'm very proud of what we've accomplished as a leadership team in fiscal year '19. We feel good about fiscal year '20, and we are very confident the team will execute against our plan to drive longer term shareholder returns. So with that, let's bring Antonio, Keerti, and Irv on stage for the Q&A session. Thank you.

MR. SIMANEK: All right, great. So we're just going to take a quick pause here as they reset the stage. And just to let you guys know, so we will be posting all the materials that Tarek just went through. Those should be available in just a few minutes on our investor relations webpage.

So we're going to invite Tarek and Antonio back on the stage. And also with us we have the President of our Financial Services Business, Irv Rothman and Keerti Melkote the founder and President of our Edge Business. Unfortunately, Phil Davis who is President of our hybrid IT business couldn't be here with us here today. He is with his family. His son is graduating in Australia.

MR. ROBBIATI: By the way, we are excited for Phil, his son is graduating today, but, as you know, he's whatever 6,000 miles away, so he's enjoying that.

MR. SIMANEK: So we'll go ahead and open it up to the floor. We've just got a question over here.

MR. JIM SUVA: Thank you. It's Jim Suva from Citigroup. Your details are very much appreciated and it's greatly appreciated for that additional insight. My question is, on your long-term outlook you gave an operating profit growth of 5 to 7% if I remember correctly. But for 2020, if my notes are correct, it looks like it's below that by about 100 basis points, about 4 to 6. Is that a rounding error difference, or is there something that's pulling down that or causing something to accelerate in the future years? And maybe the answer is as-a-service, but I just found that interesting. And again, thank you for the details.

MR. ROBIATTI: You're welcome Jim. So there is no real magic around this number except the fact that we are gradually ramping up our as-a-service offerings. And then also, you have to account for the uncertainty in this macro environment. So the operating profit growth also reflects some uncertainty we believe exists in the top line.

MR. SIMANEK: Great, thanks, Jim. You had a question, Shannon.

MS. SHANNON CROSS: Thanks, Shannon Cross, Cross Research. I'm just curious, when you talk to your customers with GreenLake, where are you at in terms of pull versus push with the customers and then, I think Tarek, you talked about apparent margin expansion through the as-a-service business, where it's a higher margin contribution. What's driving that because I would think there would be somewhat of an offset between, you know, customers who no longer have to pay for excess capacity versus maybe the opportunity to upsell since you're now in a monthly payment. So I'm just curious what customers are saying.

MR. NERI: Maybe I'll start--

MR. SIMANEK: Start with the first one, yeah.

MR. NERI: So, Shannon, I spend 50% of my time visiting the customers and partners, and it is becoming more of a pull versus a push. And the reason why is because we want to regain control in a unified experience. And what I really like about HP GreenLake is the ability to gain control for the entire hybrid estate, and as they go more and more to the Edge, they want to have the same experience. So that ability to regain control is something that's important. Second, they don't want to spend time and money running IT. They want to spend time and money innovating. And the ability to deploy GreenLake, which is an enabler of freeing up capital to reinvest back in the business is also very attractive.

And let's not forget HP Financial Services. One of the critical differentiations that HP Financial Services has is the asset lifecycle management. We have been going in through customers, where we can go and look at their balance sheet and free up that balance sheet that's trapped because of amortization and re-invest and modernize and implement to the Cloud, implement in these new technologies, or AI practices, and that's also a point of differentiation. It's becoming more a pull, it's about the experience, it's about regaining control, and it's about to consume what they really need versus over-provision of things. Obviously, some people have tested the public Cloud, and what we realize is that the cost of egressing data back from the public Cloud to whatever they need is enormous. And so we can really optimize the hybrid estate in a unified experience. That's the

differentiation for GreenLake. The more they learn becomes more a pull. And listen, I think our pipeline is very strong, and I personally am very excited about the opportunity.

MR. ROBIATTI: Sure, so let me elaborate on the question, what drives gross margin in the GreenLake solution. So you may recall my chart that showed the various components of the GreenLake standard solutions, where you have at the bottom the infrastructure component, then the Pointnext Services, and the software. So you have pretty much all the leaders we spoke about at play.

First on the infrastructure, the infrastructure itself is becoming higher margin as it becomes more software defined, and also the configurations by themselves are requiring higher power and therefore we charge for that power.

Second, when you look at Pointnext OS with HPNX, but also with the software tools from the platform, we're going to drive different level of efficiency and automation around Pointnext OS services.

And third, you have the software itself that you can charge for because that software, such as Aruba Central, is immensely valuable to our customers. So you have all those leaders at play and a mix effect within that picture that I showed you that will fuel gross margins in the future.

MR. SIMANEK: Great, thanks Shannon. I've got a question over here, go to Tony.

MR. TONY SACCONAGHI: Thank you, Tony Sacconaghi from Bernstein. I have a couple, if I may. This notion of sort of utility computing consumption on demand has been around for a really long time. I think IBM had a utility computing division in 2002. And I see the advantage, you know, the strength that HPE has with its financing business, but, you know, arguably IBM has a much bigger balance sheet. Cisco has a much bigger balance sheet. Dell is a much bigger company and provides financing capability as well.

So I guess my first question is, what is really new and distinctive about GreenLake and the consumption model that you are providing relative to what people have done in the past and why is this something more than just financing,

which, you know, given your size relative to some of your peers doesn't feel unique.

And then a second and separate question probably for you Tarek, and I think I asked you this a year or two ago, but I do believe that when HP Services separated from--and became part of DXC, there was a minimum purchase commitment that DXC had of HPE equipment, that was to last for, I believe, three years, which would be April 2020. Three years from the time of close. Could you clarify how big that purchasing agreement is and why investors shouldn't be worried that there could be a step down once that agreement finishes? Thank you.

MR. NERI: So to answer the first question, I think Cloud has changed everything and the experience that we talk about, it was not at the time you were referring to in those days. And the fact of the matter is, it's all about delivering an experience to add software to the infrastructure layers, where basically customers don't need to think about infrastructure, but think about delivering outcomes from whatever platform they are deploying versus just financing. And HP GreenLake gives us one thing. It's not about financing, it's about delivering a true as-a-service outcome through the power of our integrated solution, which financing is a component of it. But the, again, the difference is that we are bringing what people are used to now with the public Cloud, or the Cloud in general, on premises in a true hybrid state, on premise and off-premise all the way to the Edge, and be able to consume it the same way.

Our strategy at the Edge is to provide connectivity, security, analytics and Edge compute, which Tarek can elaborate more, and on the core is to provide the lowest cost portable load that are truly hybrid, and be able to manage this from a single control plane and platform where all the data can be deployed in the right place based on the use case. And all the magic comes through the experience we deliver to the softer layers, which infrastructure is a component of it, but the software is what makes this possible.

And this is where, you know, Tarek talked earlier before. You know, our differentiation is the software. The infrastructure gets optimized. Think about it as a way to deliver COS, cost of sale, as associated with that

experience. If you deploy Backup-as-a-Service, you deploy container as-a-Service, you deploy big data and analytics as-a-Service.

Example of that is SAP or SQL, or whatever it is, that infrastructure brought from the silicon to the infrastructure, to the software gets optimized to deliver that outcome and because of our management layers on top, which is managed services, and automation and metering, we can provide the same Cloud experience, whatever it is. And that's the differentiation we have. We believe, Tony, we have at least five years if not longer, head start here, because I was part of when we started that journey in 2013. We made some acquisitions with Cloud Cruiser. We invested organically, and HPFS is a strategic element, a component of that. Maybe Irv can talk a little bit about how HPFS enabled that to deliver the experience not just the financing.

MR. IRV ROTHMAN: Right, thanks Antonio. So, you know, if you want to compare per-seat pricing from 15 or 20 years ago, yes, that existed, but that really did not address the risks that companies have of investing in hardware assets that either are over-capacitized, or are subject to obsolescence. And with those per-seat kind of pricing structures from long ago, the finance company always recovered their cost, and the risk was still with the user of the equipment.

The way we approach this today, we have asset management capabilities worldwide, asset management capabilities, that enable us to take the risk from the customer, manage the assets in a way that enable us--enable the customer to achieve much greater operating flexibility, much greater risk mitigation, and we also participate, because of this flexibility we provide to the customer, a way to accelerate their transformation through the various stages of liquidating what they have in a data center that's not necessary, dealing with disruptive technologies, and then also risk mitigation for the uncertainty for the future.

So, it is a different take on what originally was kind of an old structure.

MR. ROBBIATI: Yeah. So I will just add a couple of comments on my colleagues, Irv's comments on HPFS. The secret sauce as he indicated is in the asset management business. And in my speech I highlighted the ABS issuance we made in September,

able to receive nearly a 95% cash advance rate with the residual value inside that cash advance rate. You don't get that level of cash advance without having an exceptional track record on managing residual values in that kind of assets. That's the secret sauce behind this business.

With respect to your question of pertaining to DXC, we still have a partnership with DXC that extends to 2021, not 2020. And that partnership is alive, and we highlighted as you recall when we filed our 8K after the \$668 million cash arbitration award, there was a specific sentence in our filing that suggested that that commitment remains unchanged. Now, our relationship with DXC is there and continues to be there because of the nature of their business, they will continue to purchase equipment from us and we feel comfortable about what will happen once the agreement that was originally struck three years ago, I think, is going to come to an end. There are continuous discussions between the companies and we continue to operate together.

MR. SIMANEK: Great, thank you, Tony. Can we get Ittai Kidron here?

MR. ITTAI KIDRON: Thanks, Ittai Kidron from Oppenheimer. Antonio, a couple questions for you on GreenLake. I'm just trying to get the customer perspective of this. I certainly understand the value that it tries to bring, right, simplicity. I can focus on my business and unmanaged resources and assets in which I bring no added value, right. So I understand how you step in and handle that for me as a customer. But every environment has resources from multiple vendors. So how do you handle third-party resources that are in the data center? Are all the HP people going to be Cisco certified and CCIE-certified or what have you, in order to manage this. That's kind of the question, Mark, how do you handle that?

MR. NERI: So GreenLake is a heterogenous offer. We already have full solutions with back to back arrangements that we provide. We don't support just infrastructure, we support the software lenses on that infrastructure, not the application, but we support all the way in some cases big data database, as well. Like SAP and others. So we provide the full experience, the full stack experience on prem and we manage that on behalf of the customer.

So whether it is VMWare, whether it is RedHat, whether it is Azure Stack, whether it is SAP, we have those arrangements and we provide the full heterogenous support. In many cases you have a Cisco top-of-rack switch in that data center. We manage those. We have ton of people certified to do that. But what we take is the experience, you know, in a way that we deliver and integrate it heterogenous experience apart from the managed services.

And ultimately, what the customer likes is the fact that they can free up those resources that run IT in the data center to run their business on their data center. And so, we manage the infrastructure, we manage the availability of it, and we keep it, modernize it. But one key differentiation with GreenLake, is also the automation because we bring all the automation for them.

And last, but not least, we do capacity management. So we can predict through our analytics platform built in GreenLake what capacity they need. So the incremental capacity shows up without the customer having to worry about it, do procurement, do all the things you normally do. We just add it when they need it without them worrying about it. So that's the whole integrated experience. And that's why, you know, I want to make sure everybody understands that this is a true as-a-service offer, which software is a major component of it, and the financing is an embedded component of it.

MR. KIDRON: Very good. Just as a follow-up from a sales commission standpoint, does this position change anything in the way salespeople--

MR. NERI: Yeah, absolutely. And if Phil would be here, obviously, he would explain that a big component of this transformation is how we incentivize and pay our people going forward in a sales organization, including the channel. And what we have done is a gradual change in our compensation.

Remember, one of the things we did as a part of HP Next is reduce the number of core plans. We used to have 400, now we have 25 core plans. And as a part of that, obviously, we are increasing the incentives to sell as-a-service. Because, actually, our sellers love it because the fact that when they land an as-a-service component, they don't have to worry about selling the other stuff, it comes with it. And so,

obviously, we pay significant higher value for the as-a-service. Also, because obviously it's recurring over time. And so, that's part of the strategy obviously.

MR. SIMANEK: Okay. Thanks Ittai. Can we go to the back there?

MR. ANANDA BERUAH: Hi, thanks. Ananda Beruah, Loop Capital. Two if I could, I'll ask them at the same time. The first is, Antonio, last week at Best of Breed, you spent some time talking about Aruba Central, and how you felt it's particularly advantaged for 5G adoption. Could you talk a little bit more about how material you think that advantage might be?

And then, the second question is for Tarek, the first is a clarification. The fiscal year '20 revenue growth guide, is that at constant currency? I missed that. And then, could you also just take a little time to speak about how we should expect the networking operating model for fiscal '20 and maybe the intermediate term, the margin model to look as well? Thanks.

MR. NERI: Well, last week Keerti was at the Best of Breed. He's here, so.

MR. MELKOTE: Okay. I'm happy to take that Aruba Central question. So, look about three years ago we realized that enterprises as they look at the Edge, and if you look at the overall edge opportunity, we really believe there's a secular trend towards dramatic growth of data and devices at the Edge. And going back to what Antonio said in the keynote, there is a propensity to consume this as-a-service. And the whole thing, whether it is the network or the security aspects of the network, or even as time goes by, you know, things like computing storage as well.

And as you look at that opportunity, what we realized was connectivity and security were the foundational capabilities. And we think of connectivity fairly broadly, it's not just Wi-Fi. It has a multi-access connectivity model, which includes 5G in the picture, too. And as you take that and you marry that to the customer interested in as-a-service, what we decided was, there was a lack of a single unified architecture in the market. There was a lot of point products in the market which would be optimized for Wi-Fi or for switching, or for wide area networking, or for security, and the customer had to put it all together.

And so, we basically said this is the investment. When Antonio said \$4 billion in the Edge, a significant portion of that investment went into building this platform, which we call Aruba Central. I am very, very happy with where it is today, but yesterday we added even more to the part by introducing our latest switching offerings, which are also quite, you know, essentially Cloud native.

And the way we think about it is you'll have infrastructure that is going to be Cloud native and that is in the form of Wi-Fi, the form of IOT connectivity, the form of switching, it's SD-WAN and security. That will all be paired to a Cloud native experience, which will be delivered through Aruba Central. And that's the platform architecture for the enterprise. And today if you look at other competitors, Cisco and the like, they don't have the single unified operating approach. And so, we feel very, very well positioned as we look at that overall job opportunity.

MR. NERI: And I think, you know, listen 5G obviously is going to create new opportunities and new--open up new use cases. But obviously, as you understand the 5G architectures and the Wi-Fi, every G has been good to us, and there's no difference here because the co-existence of 5G and Wi-Fi actually, it's there, especially with the new technical spectrums and what not. And they presume to provide an integrated unified experience all the way through.

And what customers really like about Aruba Central is the ability to manage everything under one single pane of glass. The provisioning, the policies, the management of it. And so that's the opportunity for us to extend this into 5G and obviously with 5G comes Edge computing. And this is why the \$4 billion investment was not just to drive connectivity, it's to drive that Cloud experience that eventually will drive info-age computing. And so, we are connecting the dots, and my partner and the team are working together here to drive that connectivity from the Edge to the Cloud.

And also, remember 5G is still way more expensive than Wi-Fi. And so, there has to be a handoff between 5G and Wi-Fi for the right to use cases. And also, let's not forget there are also some power constraints. Obviously, everybody here in the room will have to change phones because it's useless, whatever we have today, and one of the biggest challenges is power. So we, I think we have the right multi-access

strategy in a true Cloud native experience. And that's why I'm so excited.

MR. ROBBIATI: Your question on the financials, yes, you are right. The guidance on revenue for fiscal year '20 is growth in adjusted currency. And then your second part of the question, I think we rolled around, the operating margins for fiscal year '20. I think you know what...

MR. BERUAH: Oh, for the networking business.

MR. ROBBIATI: For the networking business.

MR. BERUAH: Margins for networking business.

MR. ROBBIATI: We don't guide for margins specifically to business units.

MR. SIMANEK: Great. From Wamsi Mohan, please.

MR. WAMSI MOHAN: Thank you, Wamsi Mohan, Bank of America. Antonio, you had a slide that showed about IT spending trends between public Cloud and what was happening within private Cloud, and how as-a-service was going to outgrow some of the traditional deployments. In a hybrid Cloud world when you look at competitors like Red Hat, or VM Ware, Nutanix, what gives you the confidence that HPE is going to gain it's fair share of that growth, and what is it that you're telling customers as to why they should be looking at HPE as the hybrid Cloud provider?

MR. NERI: Yeah, thanks for the question. So if you remember that chart, it talks about three parts, right. The traditional spend, the private Cloud spend, and the public Cloud spend. If you look at the public Cloud spend was roughly going to double, about an 80% CAGR. The private Cloud spend will continue to growth roughly at between 15-17% and the traditional declining, but the combined traditional private Cloud, roughly grow 7%, but in the big chunk of growth because ultimately it includes the services and the associated maintenance that goes with it.

And so for us, the story we're telling the customer is that we can give them control back. The control is the first message. What they're asking the CIO's, particularly, I'm losing control over here and I need to regain control. (A) for compliance, security reasons, but also (B) for cost and

flexibility. And that's what GreenLake gives them is a unified experience with the right control.

Second, is that platform we talk about, Edge to Cloud, is open Cloud native, automated, secure. And customers want to move to Cloud strategy. On-prem, and off-prem, and off-prem multiple Clouds. If you know, I mean, you know that in the last several decades, people have had on premises multiple vendors. It could be HP for Compute, it could be Cisco for networking, it could be Dell EMC. As they use the public Cloud as an extension of what they need to do, not as the only destination, but as an experience, what they're asking is that we want to have choice. I don't want to be locked in.

So, obviously, VMWare, right is going through their own journey, have made a very deliberate step to interact and integrate as much as possible with AWS. We know Microsoft, obviously, with Azure Stack and Azure Cloud, to drive an integrated experience there, but they control some work loads, like Office 365 and others. And you see Red Hat, right, obviously being part of the IBM Cloud. But all these Clouds, what they want is one thing. Move your data to my Cloud. And we have said many, many times, when you move your data to the Public Cloud it's like checking into Hotel California. You check in, you never check out.

And the problem with egressing that data back is enormous. So we can give them the right platform from Edge to Cloud, unified with one experience, one consumption model, and the policies and the analytics to decide where the data should gravitate and whether it should run, and putting them back in control. And then ultimately enable the other constituents whether it is the developer, the scientist, or others. That's what our strategy is and that's our differentiation. And ultimately, I believe in the long term, openness will win versus close. Because history will repeat again, over and over.

MR. MOHAN: If I could, a quick follow up. Can you maybe talk a little about the M&A strategy? You've clearly done a bunch of tuck-ins within software, you've also done Cray, but as you look at this strategy, put it towards as-a-service, do you think that you need to do something in services and do you feel the need to grow that in the context of overall HPE? Thank you.

MR. NERI: Well, first of all, I hope everybody appreciates, in particular our investors, that we have done, M&A with very rigorous return on investment capital in a very disciplined way. And that's our commitment. You know, Tarek and I, and the executive team are incredibly committed to that. And listen, I have personally driven 15 acquisitions here since the Aruba because I spearheaded that. And I just closed Cray and in between, you know, MapR and BlueData storage. But I also made two acquisitions in the services place, Cloud Technology Partners, which is an advisory firm, right to the core of the hybrid strategy and right to the core of HP GreenLake. And RedPixie did the same way with different type of skill sets.

So for us, if we see something out there that helps us accelerate our strategy with the right intellectual property and the right talent that we can integrate quickly and expand in our outer market at the right price, we will execute. And that's something that we have to do because as I said before, innovation comes in three forms, organic, through strategic partnerships, and through targeted acquisitions. So, obviously, service is a component, software is a component, but, you know, we felt Cray was an excellent addition for what we see in the market.

We know AI machine learning, big data analytics, simulation and modeling, are all workloads that are very data intensive and require a huge amount of computational power. We already have the market leadership, and we cemented that leadership with Cray. But let's not make no mistake, Cray is at the core a silicon and software company. It just happened to deliver all that value in an integrated system that shows up in a massive amount of racks.

But the differentiation for us was the silicon and software, which are two of the trends we talked about during my presentation. So we'll see. Listen, we have a big large organization for services with Pointnext and we are proud of the work they do every single day.

MR. SIMANEK: Thanks, Wamsi. Can we go to Lou here in the center middle.

MR. LOU MISCIOSCIA: Thank you. Lou Miscioscia, Daiwa Capital Markets. So two quick ones. So when we were here in fiscal '17 and you gave fiscal '18 guidance, you ended up beating

that by 28 cents. When we were here last year, you ended up beating the original guidance by 18 cents, or at least it looks like that, up 26 cents year over year. So as we are here and we look to only going up 12 cents, what would be the puts and takes to get obviously HPE materially higher than that as we might sit here next year, and then, alternatively, materially lower? And maybe leading into that, as HPE Next is winding down and obviously you pulled a lot out, very often with restructuring it give you visibility even to more future ones. Do you think that there's going to be another HP Next? If you could share some thoughts on that, too. Thank you.

MR. ROBBIATI: Sure, so the EPS guidance is actually pointing at the midpoint. If you take the midpoint of our current year outlook, and the midpoint of next year's outlook, the 7% growth. The 7% growth is actually we feel very good about this. At this stage, you also, if you want to put things into perspective, relative to fiscal '17, you have the effect of the law of bigger numbers kicking in. So let's not forget that. I feel very comfortable with the level of guidance we provided at EPS level, but, you know, it's early days right now. We haven't even started the fiscal year. So let's see how it goes as we move into fiscal year '20.

And then, sorry, could you repeat the next question.

MR. MISCIOSCIA: The HP Next--

MR. ROBBIATI: The restructuring of HPE Next. The answer is HPE Next is a three-year program. It will terminate in fiscal year '20. And as part of what we will do in fiscal year '20, we will continue to deliver the IT platforms that we said we would be delivering. There will be savings attached to that in fiscal year '20. Beyond fiscal year '20, we don't see another HP Next.

MR. NERI: So let me add a couple of points there. First, we are incredibly proud of what we have done with HP Next. I remember having this conversation in San Francisco. And we hosted a cocktail after that. Some of you came to me and said, "Wow, this is a lot of risk associated with that. Are you sure you can eliminate layers in the sales force? Are you sure you can produce the number of platforms? Are you sure you can eliminate nodes in the supply chain?" And I have to say, I'm incredibly proud of the work we have done as

a company. And we have delivered it \$800 million ahead of schedule, net savings to our shareholders. So this team has demonstrated the ability to execute when it's focused. So for us it's focus.

Second is, listen, when I go up from 94 cents to \$1.72 to \$1.76, it's pretty remarkable in two years. And this is why the new baseline, right, is high, and we feel confident giving you this guidance of 7% growth for next year. And then, for me, on EPS. And then for me is, is now we have a clear vision and strategy and vision for what we want this company to be. And I have to say, not only the executive team was sitting here, but the entire organization is aligned. We are getting out in a couple of weeks our top leaders to talk about the actual sequencing of all of this that we are already doing, anyway.

But, you know, obviously, there is the other side, which is what the market is doing, right. And that's something that we don't control. But right now we are giving you guidance based on what we control, based on what we hear from customers. And I think it's a unique investment opportunity like Tarek said. And then, listen, you know, we want to drive the business in our own control. Meaning, if we have to take actions, we have to manage with our own P&L. That's the bottom line, and we said that two years ago.

MR. SIMANEK: All right, thanks, Lou. Can we get at Katy, please.

MS. KATY HUBERTY: Thanks, Katy Huberty, Morgan Stanley. Investors view HPE as a well-positioned infrastructure company. You're saying today that the real point of differentiation will be in software with these as-a-service bundles. So can you talk about some of the software in the portfolio that you really feel is differentiated and why you don't, you won't have to go down the path that peers like IBM and Dell have building out the software portfolio?

MR. NERI: Yeah. So first, we are proud of our legacy, and, listen, infrastructure, in different shape or form really matters. And, you know, takes specialized compute, right. To deliver the outcome the customers are looking for now takes a level of sophistication between the silicon infrastructure and the software to deliver against those outcomes. So I think it's a point of strength and differentiation for us. What we realize is all about

delivering outcomes through experiences, and that outcome through the experiences--that needs to be delivered, comes from the software.

But it's not the application software. It is the software-defined elements that drive those experiences. And so, Key Assets, Aruba Central, I think we already spoke at length, it is unique in my view. It is incredibly scalable, it is Cloud native, it is the way customers want to consume connectivity, security and computing going forward at the Edge.

When I go to the core business, assets like HP OneView, you know, we have already more than 1.5 million licenses deployed that automates all the workloads to land on premises, whether it's computer stored or networking.

HP InfoSite is a unique point of differentiation that nobody else has in the market. It is what we call AI Ops on premises, but the reality is more than that. And if you think about the introduction of the most intelligent data platform, not storage, intelligent data platform, HP Primera, the core of that was not the hardware, it was the HP InfoSite. And we have more than 3 million sensors built into this intelligent data platform that allow us to guaranty 100% availability.

So whether it is HP OneView, HP InfoSite, and the recent acquisition on my part, BlueData Storage, are also incredible differentiation for us because ultimately, the core of everything we do is about the data. And these assets are incredible important to deliver against those experiences.

And last but not least, is HP GreenLake, which is a platform of software enabled experiences that's the - - the management services, and none of our competitors have that. You mentioned that, they don't have that. So when I think, compare myself with Dell, Dell doesn't have any strategy, does not have connectivity, does not have HP GreenLake, does not have HP Financing, and when we see about the strength to go through Edge to Cloud as-a-service, I think it makes us unique. But, in the end, we have to provide a true hybrid experience in a unified experience, and that's where I think we've got to pivot, and I think we have a unique opportunity.

MR. SIMANEK: Great, thanks, Katie. Can we go to Aaron here in the front?

MR. AARON RAKERS: Thanks, Aaron Rakers, at Wells. I'll take two questions, as well. So you alluded to it earlier, the Cray acquisition. I'm just curious, as you build the model and you think about the longer-term growth rate, you know, if I look at the filings, I think Cray had like a \$500 million going to \$1.5 billion revenue level. How much of that have you factored into your expectations over the next couple of years?

And then, you know also on that, you know, where do we stand as far as integrating Cray. I mean, you talked about silicon, that interface technology, what does that mean to the HP product portfolio? What kind of leverage could you see if you're successful in leveraging that, or integrating that in a product portfolio?

And the follow up question is, is that, you know, there's this \$3.8 billion kind of number, as far as the Oracle lawsuit. I know that's split between yourself and HPQ. If that were to come to fruition as a payment for you guys, how do you think about that cash inflow to the company?

MR. NERI: All right. We have the chief legal officer here. We'll defer that question to him because it's important to understand the timing of it. But you may want to talk about what was built in the plan. Then I can talk about, and maybe Mark, you can come in as well.

MR. ROBBIATI: Yeah, so specifically with Cray, the two points you made on how much revenue and the integration. I'd say what you had in the prior analyst consensus for Cray is essentially what you can factor in in the plan for fiscal year '20. I also want to remind everybody when you look at the exascale deals that they have won, and I think you know this because you covered the stock very thoroughly, most of those exascale deals will not generate revenue before 2022, 2023. Because it takes, with Cray, a long time to build the system and gain acceptance with the government customers that they typically serve. Sometimes it takes 18 months, sometimes it takes 24 months to build a machine like this, which is incredibly sophisticated. So that's on that side.

The integration is progressing extremely well. You know, one thing is that Peter Ungaro--the CEO of Cray has joined our team. He will be running, if you recall my presentation, he will be running HPC, which includes Appolo and Cray, and

Mission Critical Systems. You know, we are well on track on the integration on all fronts. The silicon which is what I'm talking about, which is critically, critically valuable for us, but also not just for super computers in that space, but also taking it mainstream to replace some of the components that we use today, and optimize solutions.

And second, also organizationally, we are very well advanced on the integration across Cray and our own teams across the board. So we stick to the guidance that we gave you with respect to synergies. Cray, next year, will be dilutive to EPS. We said it would be accretive after one year of ownership and it will be generating synergies in the three-digit figure at OP level as of fiscal year '21.

MR. NERI: So Mark, I will ask you to add here in a second. But listen, first, I'm excited about the leadership we have put together for the business. Pete Ungaro is a world class leader and interesting enough, the composition of the team, which we already announced because we were able to close this deal pretty much in a record level. You know, we announced this somewhere in June if I remember correctly, and by the end of September pretty much we closed the transaction.

But, he has put a world class team. We've almost been 50/50, 50% Cray, and 50% HPE, strength in the bench and complimentary skill sets from R&D to go to market to operations. And for us, again, it was the thesis was about, first and foremost, managing expansion through the leverage of the technologies that Cray had with the rest of HP portfolio. Let's remind ourselves, that market is growing 9% to \$35 billion. But you have to segment the market into the high-end, call it the super computer with exascale, the mid-range, which is the vast majority, and the low end.

In the mid-range, and the low-range, HP Apollo shines and is an incredible business that's growing double digits. In fact, it's growing more than 25% year to date. But, obviously, the exascale is very interesting, and Cray won two large exascale deals and recently, yesterday, another very large deal.

But the good news here is we are talking about bookings, and the revenue will show up in the years to come. And those are technology that will cascade into the commercial space because, as I said in my presentation, not everybody needs

exascale computing, but they need exascale performance for their workloads, particularly on the AI and machine learning. And one other thing I'm super excited, is the leveraging their technology what we have done with HP Labs, and maybe Mark can make a comment about what we see there because we have our own IP that now will be fully integrated.

MARK POTTER: Yeah, I mean, I think what's exciting for us is, Antonio mentioned these data intensive workloads are only growing, and being a leader means you have to have core IP to make workloads efficient in a world where data is key. And so, we talk about modeling assimilation, we talk about truly big data analytics. That's where the role is going. But then there's a third category around AI and machine learning. Super important.

So when you think about the assets of Cray plus the assets of HPE, it's pretty exciting from my perspective. One is, incredibly efficient leadership fabric capability with Slingshot, the networking. Yes, we're going to take that and expand that into certainly the Apollo, but other parts of the business. Moving data efficiently, very, very important as we underpin our as-a-service play.

Second, we don't talk a lot about, but they have key assets in highly parallel performance file capability. So storage. So they have networking, storage, and then they have a product category that they were creating called Eureka around kind of packaging up AI and machine learning offerings. And so, all of those are as we see it additive to us.

And when we look at some of the assets in Hewlett Packard labs, we have leadership in photonics. Being able to communicate with light versus the traditional method. Very efficient, very cost effective, and again, critical for us to be a leader in workload optimized data intensive workloads, which is exactly what we're going to need to do as we take on more and more workload for customers as we pivot to an as-a-service company.

MR. NERI: By the way, I hope you recognize Mark from the picture, but he's our CTO. And, listen, I'll just sum it up before I give it to John to talk about the Oracle situation. In the end, this is all about margin expansion because we own our own IP versus acquiring third-party options from other companies. That's the bottom line and we're excited about

that also because we consistent integrate this in a very efficient way for our customers. John.

MR. SCHULTZ: So unfortunately, the legal process in the state of California is quite slow and we believe we're still a couple years away from having a final, non-appealable, executable order. So probably a couple more years before we would be in that position.

MR. ROBBIATI: But we do earn interest on the pending judgement.

MR. SCHULTZ: Right. Statutory interest of about 10%

MR. SIMANEK: Yeah, which equates to \$1 million a day, roughly.

MR. ROBBIATI: Which we like.

MR. SIMANEK: Okay. I think we--

MR. NERI: And by the way, that award was \$3 billion. I think you said \$3.8. No it's \$3 billion, right John? And again, it's 10% a year, which equates \$1 million a day.

MR. SIMANEK: Right, so I think we have time for one more question. Can we go to Simon here in the middle?

MR. SIMON LEOPOLD: Thank you very much. Simon Leopold with Raymond James. I wanted to talk about the as-a-service opportunity in that I think you've disclosed that GreenLake is roughly 2% of revenue now, and I have the impression that your expectation is to not shock the system and take a gradual glide path to increase the portion of revenue as-a-service. So while you've talked about the entire portfolio being available as-a-service, could you help us understand your expectations of the revenue contribution of the as-a-service business in the maybe 2020, 2021 timeframe so we have an idea of what the glide path will be?

MR. NERI: I think you can explain--I mean, he showed the charts, but I mean, what we said is that we expect this business to grow 30-40% over the next few years. Today it's \$460-470 million, which is probably the math you come to. But remember, what we really care about is growing the bookings and the size of the contract values, and today we already have \$3 billion on the total contract value that represent today in the formula he described. Because we wanted to be very transparent and give you the way you should measure us, so there's no confusion, \$460-\$470 million. And if we keep

growing at those levels, right, it will become very relevant, but maybe, you know, what you think it's going to be in terms of '22, - - 2022.

MR. ROBBIATI: Well, you can do the math on the \$460-\$470 at a 30-40% compare on the growth rate, you will see what that means by 2022 on an ARR basis. I think, you know, that metric is key. We want to anchor on this one because not only it's a different kind of revenue because of its composition, but also its recurrence is radically different compared to other revenue streams that make our PNL. And so, you know, we start with a view. I explain how we calculate it. We take all the components that generate revenue in the core and multiply it by four. That level with a four times multiplier is very conservative in my mind because you know that the contracts are over a duration of four to five years. And therefore, you can hypothesize, and latent contract revenue bookings in the balance sheets will be higher. So let's make progress along this metric, and I think, you know, by 2022 we'll have a very stable and growing recurring revenue business from as-a-service that is high margin.

MR. NERI: Yeah, I think that's the point, high margin, because, you know (A) is the contract duration, (B) is the fact when we sell GreenLake, the hybrid margins are higher. We see that very consistently. Second, is the PointNext OS portion of this is attached 100% of the time. And then, on top of that, all the other services we are adding in because of their subscription to the platforms and so forth. So for us, making this pivot and then doing it in a way that is to Shannon's questions whether it's pull versus push, we see more of a pull. But ultimately we believe it's going to be gradual, but it's going to be steady. I think he used the word steady in his speech. And this is where we will continue to accelerate that steadiness as we go along the way.

MR. SIMANEK: Great, thank you, Simon. So I think that wraps up our Q&A session. So, Irv, Keerti, Tony and Tarek, thank you for participating. Maybe, Antonio, I'll turn it over to you.

MR. NERI: Yeah, so first of all, thank you for joining us this afternoon. I hope you got a clear sense where we're going as a company. I believe we have a clear vision and strategy for this company. I am incredible proud of what we have done the last two years. If you recall, I said I have three

priorities as a CEO. One is our customers and partners. And I have to tell you, the feedback from our customers and partners is very strong. Our strategy resonates with our customers and partners and is all about execution.

Second is about innovation, innovation, innovation. And we have done a very good job in accelerating that innovation agenda both organically and inorganically with targeted acquisition and also with our vast partner Eco-System.

And third is the culture. Let's not forget about that because in the end for a CEO culture is everything. And I'm really proud of what we have done in the last two years as an executive team and the results and the feedback we get from our employees. Having an employee engagement score of 81% is pretty remarkable. In two years, almost 20 points is very, very strong.

And at the last, the employees are coming along with us, and that's a very healthy measure because as we lay this transformation going forward and we continue to execute, we want to make sure these employees, our employees, our team members as we call it now, come along and they can fulfill their dreams. As I have been myself, you know, joining HP 25 years ago and being a call center agent, and now being the present CEO.

But ultimately, we are not confused. We've got to drive shareholder value and we do it with a purpose in mind and that's why our purpose guides us in everything we do. So with that, thank you very much, and hope to see you soon.

MR. SIMANEK: All right. Thank you.

[END RECORDING]